

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 DODE-00 PM-04 H-02 L-03 PA-01 PRS-01 SAM-01

SAB-01 SSM-03 /094 W

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R 060759Z APR 76

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 1690

INFO AMEMBASSY TEL AVIV

C O N F I D E N T I A L SECTION 1 OF 2 CAIRO 4488

DEPT FOR DEPUTY ASST. SECRETARY SOBER

E.O. 11652: GDS

TAGS: OCON BEXP PFOR

SUBJ: TUNIS E/C CONFERENCE: BOYCOTT PRESENTATION BY TEL AVIV

COMML. ATTACHE COLLINS

EMBASSY FORWARDS TEXT OF REMARKS MADE BY COMMERCIAL ATTACHE COLLINS ON MARCH 30 IN TUNIS, COLLINS, PRESENTLY IN CAIRO ON LEAVE, WAS UNABLE TO HAVE MATERIAL PREPARED DURING HIS BRIEF STOPOVER IN TEL AVIV ENROUTE HERE, AND HAS ASKED US TO FORWARD IT, IN RESPONSE TO A REQUEST BY DEPUTY ASST. SECRETARY SOBER.

BEGIN TEXT: SID SOBER AND PETER HALE MENTIONED THE TREMENDOUS AMOUNT OF TIME THEY BOTH HAVE TO SPEND ON THIS BOYCOTT ISSUE. YOU CAN IMAGINE THE AMOUNT OF "CROSSFIRE" I GET INTO EVERYDAY ON THIS THING IN TEL AVIV*

I WILL TRY TO DO TWO THINGS. ONE, I WILL ATTEMPT TO RELAY THE IMPACT OF THE BOYCOTT ON ISRAEL, THE PERCEPTION OF THE
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ISRAELIS ON HOW THE BOYCOTT IS AFFECTING THEM AND THEIR

ECONOMY, AND WHAT THEIR RESPONSE AND REACTION HAS BEEN.
SECONDLY, I WILL GIVE YOU MY "PERCEPTIONS" OF THE ISRAELI
"PERCEPTIONS". THE ISRAELIS CLAIM THAT THE BOYCOTT IS
CAUSING SERIOUS PROBLEMS TO THEIR ECONOMY BY:

1. RETRADING INVESTMENTS, LICENSING/KNOW-HOW AGREEMENTS,
JOINT VENTURES, ETC.

2. RETARDING U.S. EXPORTS ON RAW MATERIALS, COMPONENTS
AND EQUIPMENT DUE TO MISUNDERSTANDINGS ON THE PART OF
U.S. BUSINESSMEN, THAT THE BOYCOTT PROHIBITS STRAIGHT
DIRECT EXPORTS OF NON-STRATEGIC GOODS AND SERVICES TO ISRAEL.

3. DIFFICULTIES CREATED BY USDOC IN RECRUITING TRADE
MISSIONS.

(A) LAST YEAR USDOC WAS UNABLE TO RECRUIT PARTICIPANTS
FOR THE "INTELLECTUAL ASSETS" TRADE MISSION. THIS MISSION
WAS TO BE COMPOSED OF U.S. COMPANIES INTERESTED IN SELLING
LICENSING/KNOW-HOW AGREEMENTS, PATENTS, ETC. IT WA
CLAIMED THAT THE BOYCOTT "WAS THE INHIBITING FACTOR.

(B) A CHEMICAL PROCESSING EQUIPMENT TRADE MISSION VISITED
ISRAEL IN DECEMBER 1975. THIS WAS THE FIRST TRADE MISSION TO
VISIT ISRAEL SINCE THE FOOD PROCESSING AND PACKAGING EQUIPMENT
TRADE MISSION IN JUNE 1974 (18 MONTHS EARLIER). THE
ISRAELIS WERE ALSO DISAPPOINTED IN THE CALIBER OF THE
CHEMICAL TRADE MISSION, BEING COMPOSED OF SMALL
COMPANIES IN THE \$1 - \$5 MILLION ANNUAL SALES RANGE.

(C) THE ISRAELI PERCEPTION IS THAT THE DECLINING
NUMBER OF TRADE MISSIONS COMING TO ISRAEL AS WELL AS THE
LOWER CALIBER OF COMPANIES PARTICIPATING, ARE DUE TO THE
ARAB BOYCOTT.

4. DIFFICULTIES FOR U.S. GOVERNMENT IN PUTTING TOGETHER A
JOINT BUSINESS COUNCIL UNDER THE U.S. -ISRAEL JOINT COMMITTEE
FOR INVESTMENT AND TRADE.

(A) WE WERE UNABLE TO GET NON-JEWISH CANDIDATES TO
SERVE ON THIS COMMITTEE, APPARENTLY DUE TO RELUCTANCE TO
IDENTIFY WITH ISRAEL BECAUSE OF POSSIBLE BOYCOTT RETALIATION.
(HOWEVER, FIRST MEETING OF COUNCIL TOOK PLACE MARCH 17, 1976,
IN THE STATES UNDER CHAIRMANSHIP OF FORMER GOVERNOR ROMNEY).
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5. THE DECLINE IN U.S. INVESTMENTS IN ISRAEL FROM A HIGH OF
\$159 MILLION IN 1973 TO \$35-40 MILLION IN 1974, AND WHICH
PRACTICALLY "DRIED UP" IN 1975. THE SAME DECLINE HOLDS
TRUE FOR LICENSING/KNOW-HOW AGREEMENTS.

6. THE EMERGENCE OF THE "VOLUNTARY BOYCOTT" --- THIS IS BY FAR
THE MOST WORRISOME ASPECT OF ALL TO THE ISRAELIS. THE

"VOLUNTARY BOYCOTT" IS ACTIVATED WHEN U.S. BUSINESSMEN CHOOSE NOT TO HAVE ANY DEALINGS WITH ISRAEL WHATSOEVER, OUT OF FEAR OF WINDING UP ON THE BOYCOTT "BLACKLIST".

THER HAVE ALSO BEEN A VERY DRASTIC DECLINE IN THE NUMBER OF U.S. BUSINESSMEN VISITING THE EMBASSY WITHIN A FEW MONTHS AFTER THE OCTOBER WAR. USUALLY ONE OR TWO WOULD DROP IN EVERY DAY PRIOR TO THE OCTOBER WAR. FOR SEVERAL MONTHS AFTER THE WAR, THEIR NUMBERS DECLINED TO TWO-THREE PER WEEK. IN THE PAST 12-18 MONTHS THE AVERAGE HAS BEEN ABOUT ONE U.S. BUSINESSMAN VISITOR PER MONTH. INSTEAD, MY TIME IS LARGELY OCCUPIED WITH ISRAELI BUSINESSMEN DROPPING IN WITH THEIR COMPLAINTS AND FRUSTRATIONS ABOUT BOYCOTT INTERFERENCE.

LAST SUMMER I VISITED THE STATES UNDER THE "BUSINESS CONSULTATION PROGRAM" WHEREBY I WAS TO ASSIST IN CONSUMMATING SELECTED COMMERCIAL TRANSACTIONS THAT WERE HANGING "ON THE FENCE". I SPENT OVER A MONTH VISITING ABOUT 30 COMPANIES AND I WAS AMAZED AT THE NUMBER WHO OPENLY ADMITTED THEY WOULD NOT EVEN TRADE WITH ISRAEL BECAUSE OF THE ARAB BOYCOTT. THEY CITED THE MUCH LARGER OPPORTUNITIES AND POTENTIAL FOR SALES IN THE ARAB WORLD (30-100 TIMES GREATER THAN IN ISRAEL). SOME SAID THEY WOULD NOT EVEN ANSWER A LETTER FROM ISRAEL, OR MAKE A VISIT THERE FOR FEAR OF BEING PUT ON THE BOYCOTT BLACKLIST.

ONE U.S. BUSINESSMAN, REPRESENTING A VERY LARGE AMERICAN FIRM, AND WHO WAS SELLING MILLIONS OF DOLLARS OF TELECOMMUNICATIONS EQUIPMENT TO ISRAEL ANNUALLY, REFUSED REPEATED INVITATIONS TO VISIT ISRAEL FROM HIS ISRAELI AGENT WHO WANTED TO SET UP A SERVICING ORGANIZATION FOR THIS

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COMPANY'S PRODUCTS, AND WANTED ADVICE AND ASSISTANCE IN SETTING IT UP PROPERLY. THIS AMERICAN BUSINESSMAN TOLD ME HE WAS "AFRAID TO COME TO ISRAEL OUT OF FEAR OF BEING 'SPOTTED' AT THE TEL AVIV AIPORT ON ARRIVAL BY SOMEONE FROM THE BOYCOTT OFFICE IN DAMASCUS". (HE LATER CONSENTED TO SEND ONE OF HIS DEPUTIES AFTER WE HAD TWO HOURS OF DISCUSSION, AND HE HELD ADDITIONAL CONSULTATIONS WITH HIS SUPERIORS.)

IT IS THE SAME EXPERIENCE THAT ISRAELIS COMPLAIN THEY RUN INTO THEMSELVES. AND IT IS THIS PERCEPTION WHICH HAS CAUSED THEM TO BRING PRESSURE ON THE "HILL" FOR MORE STRINGENT ANTI-BOYCOTT LEGISLATION. ALTHOUGH THE ISRAELIS RELAIZE AND RECOGNIZE THE LARGER U.S. BUSINESS INTEREST IN THE LARGER ARAB MARKET, THEIR ATTITUDE IS THAT THEY DON'T

WANT TO GET HURT BECAUSE OF IT.

MY IMPRESSION IN TALKING TO ISRAELI BUSINESSMEN, AND
KEY GOVERNMENT OFFICIALS, AND LEADERS OF AMERICAN JEWISH
LOBBYING GROUPS VISITING ISRAEL (SUCH AS THE AMERICAN JEWISH
CONGRESS, THE AMERICAN "ISRAEL PUBLIC AFFAIRS COMMITTEE,
THE AMERICAN JEWISH COMMITTEE, THE ADL (ANTI-DEFAMATION
LEAGUE OF B'NAI BRITH, AND VARIOUS ZIONIST ORGANIZATIONS)
IS THAT THE LOBBYING PRESSURES FOR ANTI-BOYCOTT LEGISLATION
IS GOING TO INTENSIFY IN THE FUTURE.

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ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

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CEA-01 DODE-00 PM-04 H-02 L-03 PA-01 PRS-01 SAM-01

SAB-01 SSM-03 /094 W
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R 060759Z APR 76

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 1691

INFO AMEMBASSY TEL AVIV

C O N F I D E N T I A L SECTION 2 OF 2 CAIRO 4488

DEPT. FOR DEPUTY ASST. SECRETARY SOBER

WHAT HAS BEEN ISRAEL'S RESPONSE AND REACTION TO THE
BOYCOTT?

1. AN ANTI-BOYCOTT COMMITTEE HAS BEEN SET UP WITHIN THE
MINISTRY OF FINANCE, HEADED BY AVRAHAM AGMON, FORMERLY
DIRECTOR GENERAL, MINISTRY OF FINANCE.

2. THEY CLAIM THAT THE U.S. IS OVERLOOKING A \$5 BILLION
ISRAELI IMPORT MARKET, WHICH IS A SOPHISTICATED, ADVANCED

TECHNOLOGY MARKET. IF THE MARKET POSITION OF U.S. EXPORTERS IS REPLACED BY EUROPEANS, IT WILL BE MORE DIFFICULT FOR U.S. TO RE-ENTER THIS MARKET.

3. THEY CLAIM THAT ARAB ARE PRAGMATICALLY "ACCOMMODATING" AND MAKE "ADJUSTMENTS" WHEN NECESSARY TO GET THE KINDS OF GOODS THEY NEED FROM THE U.S.

4. THEY CLAIM THERE IS "NO END" TO "RANSOM" DEMANDS OF THE BOYCOTT MENTALITY, AND NO NATION OR COMPANY SHOULD

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RELINQUISH ITS "SOVEREIGNTY" OR "INTEGRITY." CONSEQUENTLY, THE ISRAELIS MAINTAIN THAT AMERICAN COMPANIES WOULD LIKE TO HAVE AN "ANTI-BOYCOTT LAW" TO "LEAN ON" --SOMETHING WHICH THEY CAN THEN POINT UP TO THE ARABS. (OUR PERCEPTION IS THAT WE WOULD BE SURE TO LOSE ARAB BUSINESS. ALSO IT MAY IMPEDE OUR EFFORTS IN THE CRUCIAL PEACEMAKING PROCESS.)

HOWEVER, THE ISRAELIS HAVE A DIFFERENT PERCEPTION OF THIS TOO. DURING SECRETARY SIMON'S RECENT (MARCH 1-3, 1976) JOINT COMMITTEE VISIT WITH MINISTER OF FINANCE RABINOWITZ, HE (RABINOWITZ) TOLD SECRETARY SIMON THAT "THE ELIMINATION OF THE BOYCOTT IN THE U.S. IS NOT DEPENDENT ON AND SHOULD NOT WAIT FOR A SETTLEMENT IN OUR REGION." THE MINISTER WENT ON..."WE ARE OF COURSE AWARE OF THE VARIOUS STEPS TAKEN BY THE PRESIDENT OF THE U.S. AND BY THE ADMINISTRATION AGAINST THE BOYCOTT, BUT WE WOULD APPRECIATE IT IF ADDITIONAL STEPS SHOULD BE TAKEN, IN PARTICULAR BY LEGISLATION."

NOW, WHEN PRESIDENT SADAT OF EGYPT ANNOUNCES PUBLICLY AFTER SIGNING THE SINAI II AGREEMENT THAT "ISRAEL MUST WITHDRAW FROM THE TERRITORIES NOW, AND PEACE WILL COME IN THE NEXT GENERATION," THE ISRAELIS GET SKEPTICAL. IT MAKES THEM VERY NERVOUS. THIS IS WHY I FEEL THE ISRAELIS ARE GOING TO LOBBY SO STRONGLY FOR ANTI-BOYCOTT LEGISLATION, DESPITE THE FACT THAT OUR GOVERNMENT HAS DONE MORE THAN ALL OTHER GOVERNMENTS COMBINES, IN COUNTERING THE ARAB BOYCOTT. I WAS VERY MUCH CONCERNED ABOUT THIS WHEN I SUBMITTED A REPORT OF MY FINDINGS AND IMPRESSIONS AT THE CONCLUSION OF MY "BUSINESS CONSULTATION VISIT" TO THE STATES IN JULY-AUGUST OF 1975.

NOW -- TO THE SECOND PART OF THIS BRIEFING PAPER -- "MY PERCEPTIONS" OF THE "ISRAELI PERCEPTIONS." AND TO GET SOME PERSPECTIVE ON THESE ISRAELI COMPLAINTS AND REACTIONS, LET'S LOOK AT THE "OTHER SIDE OF THE COIN."

1. THERE WAS A SPATE OF BUSINESS FAILURES, BANKRUPTCIES,

AND LARGE BANK EMBEZZLEMENTS WHICH MADE HEADLINE NEWS
AROUND THE WORLD FOR A PERIOD OF SEVERAL MONTHS STARTING
AROUND MID-1974. THIS CREATED A /CRISIS OF CONFIDENCE"
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IN THE USUAL INVESTMENT CHANNELS FOR ISRAEL. SOME ISRAELIS
WENT TO JAIL. SUCH ACTIVITIES WERE UNHEARD OF IN THE IDEOLOGICALLY
ORIENTED COUNTRY OF ISRAEL. THESE INCIDENTS WERE THE EXCEPTION RATHER
THAN THE RULE. BUT THEY MADE HEADLINE NEWS, AND TARNISHED
ISRAEL'S IMAGE IN THE INTERNATIONAL INVESTMENT COMMUNITY.

2. THERE WAS THE WORLD RECESSION. MOST BUSINESSES
WERE RETRENCHING IN THEIR INVESTMENTS ABROAD.

3. THERE WAS THE MILITARY SECURITY SITUATION. VERY
FEW INVESTORS ARE WILLING TO RISK THEIR CAPITAL IN A
"MILITARY-SECURITY" ENVIRONMENT.

4. PUBLICITY BEGAN TO GROW ABOUT THE DIFFICULTIES IN MAKING
A PROFITABLE INVESTMENT IN ISRAEL. THERE SEEMED TO BE A
CAMPAIGN EMPHASIZING THESE DIFFICULTIES. AND THERE WERE
A NUMBER OF THESE. (BUT THERE WAS LITTLE PUBLICITY ABOUT THE
MORE SUCCESSFUL VENTURES. AND MY IMPRESSION IS THAT THESE
WERE FAR GREATER IN NUMBER.)

5. DEVALUATIONS: THERE HAVE BEEN 7-8 CURRENCY
DEVALUATIONS SINCE NOVEMBER 1974 (OR IN THE LAST 17 MONTHS).
THE ISRAELI POUND DROPPED FROM 24 CENTS IN VALUE TO
APPROXIMATELY 13 CENTS NOW. THIS CONSTANT EROSION OF THE
INVESTORS' VALUE OF HIS INVESTMENT PORTFOLIO HAS BEEN ANOTHER
DISCOURAGING FACTOR IN ATTRACTING INVESTMENTS.

6. THE GOI "LAW FOR THE ENCOURAGEMENT OF CAPITAL
INVESTMENT" CAME UNDER ATTACK FOR NOT BEING LIBERAL AND
ATTRACTIVE ENOUGH. THE GOI RECENTLY AMENDED THIS LAW TO
PROVIDE A MORE HOSPITABLE INVESTMENT CLIMATE. IT REMAINS
TO BE SEEN WHETHER THESE MODIFICATIONS WILL, IN FACT, ATTRACT
MORE INVESTMENTS.

7. THERE ARE COMPLAINTS OF INEFFICIENCY AND LOW LABOR PRODUCTIVITY.

8. THERE IS THE GOVERNMENT BUREAUCRATIC RED TAPE WHICH
DRIVE SOME PROSPECTIVE INVESTORS "UP THE WALL."

IT IS DIFFICULT TO SEPARATE, SORT-OUT, AND QUANTIFY
EACH OF THE ABOVE FACTORS FROM THE IMPACT OF THE BOYCOTT
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ITSELF. NEVERTHELESS, DESPITE ALL OF THE ABOVE REASONS WHICH DISCOURAGE INVESTMENTS, LICENSING/KNOW-HOW, ETC., AND THE ISRAELIS REALIZE OUR GOVERNMENT HAS DONE MORE TO COMBAT THE ARAB BOYCOTT THAN ALL OTHER GOVERNMENTS COMBINED, THE ISRAELIS PERCEIVE THE ARAB BOYCOTT AS THE MAIN CULPRIT. THEIR CLAIM IS THAT DESPITE ALL OF THE FOREGOING REASONS, THERE HAVE BEEN ANUMBER OF SUSPENDED OR TERMINATED NEGOTIATIONS FOR INVESTMENTS, LICENSING/KNOW-HOW AND JOINT VENTURE AGREEMENTS, AND THERE IS INCREASING CONCERN ABOUT THE FUTURE, PARTICULARLY THE VOLUNTARY BOYCOTT.

WHAT DOES THE FUTURE HOLD? WHERE DO WE GO FROM HERE? I DON'T HAVE THE ANSWERS TO THIS VERY KNOTTY PROBLEM. SIPLOMATIC DIALOGUE MAY BE A GOOD MIDDLE ROAD. BUT I'M NOT OPTIMISTIC ABOUT SELECTIVE DIPLOMATIC CONTACTS WITH KEY LEADERS IN YOUR HOST COUNTRIES, TO MODERATE THE BOYCOTT SO AS TO HELP EASE LOBBYING PRESSURES FOR MORE STRINGENT LEGISLATION.

OUR EMBASSY IS TRYING TO PERSUADE THE ISRAELIS THAT LEGISLATION MAY REDOUND TO THEIR DISADVANTAGE AS WELL AS OURS. HOWEVER, THE ALTERNATIVE TO A "COUNSEL OF RESTRAINT" MAY BE "LEGISLATIVE CONFRONTATION."
THANK YOU. END TEXT.
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